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MILITARY PROCUREMENT—1956—VOLUME I

REPORT

OF THE

SELECT COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

ON

MILITARY PROCUREMENT PRACTICES

- CASE STUDIES -

APRIL 3, 1956.—Filed under the authority of the Senate of MARCH 28 (legislative day, MARCH 26), 1956, and ordered to be printed

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Mr. SMATHERS, from the Select Committee on Small Business, submitted the following

REPORT

INTRODUCTION

Congress, in general, and the Committee on Small Business, in particular, have long been concerned with insuring that small business receives a fair proportion of the purchases and contracts being made by the Department of Defense, largest single purchasing entity within our Government. In order to obtain a continuing and realistic picture of the status of the various small-business programs which have been initiated by each of the services, constant liaison is maintained by the staff of the committee with those representatives of the military who are most closely associated with the small-business programs. Additionally, each year the civilian and uniformed heads of the procurement sections of each service appear at public hearings to apprise the committee of the progress being made in carrying out each of their programs within the military departments, in compliance with the overall Department of Defense policy.

As stated in the committee's sixth annual report, issued January 12, 1956, the Department of Defense policy is designed to provide small business with a "fair share" of defense expenditures. This, according to Thomas P. Pike, Assistant Secretary of Defense (Supply and Logistics), is "all they can get for themselves when they are given an open and fair competitive opportunity." More specifically, this policy, set forth in Department of Defense Directive 4100.10, lists among its objectives the following:

> (1) To make it easy for small firms, if qualified, to get on military bidders' lists.
>
> (2) To assure that they are solicited for bids or proposals after they have secured listing as sources.

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(3) To divide procurements into reasonably small, economical production lots so they can bid on them.

(4) To give them the information they need to prepare their bid intelligently.

(5) To give them a reasonable period of time to prepare it.

(6) To establish delivery schedules that are reasonable in relation to needs.

(7) To seek continuously and actively for new small-business suppliers.

This top-level statement of small-business procurement objectives is, indeed, encouraging. These goals, however, can only be reached if those at the operational level make every possible effort to implement the policies set forth in the Secretary's directives. In order to determine for itself, at first hand, how the spirit and letter of this directive of December 1954 was being carried out by those actually performing the purchasing and contracting functions, the committee selected for public inquiry three of the hundreds of complaints brought to its attention by small-business men during the past year. Hearings on the specific procurement problems encountered by these three small firms were held on January 9 and 10 by your committee's Government Procurement Subcommittee, headed by Senator George A. Smathers.

Chapter I. Procurement of Vests or Covers for Life Preservers by Department of Navy

A. BACKGROUND DATA

The Seymour Wallas Co. of St. Louis, Mo., on August 9, 1955, mailed its quotation covering 100,400 vests or covers for life preservers, in response to Invitation for Bid No. 383–1088–56, issued by the Aviation Supply Office, Department of the Navy at Philadelphia.

An analysis of the bid abstract covering this invitation revealed that three bidders had responded:

1. American Pad & Textile Co., Greenfield, Ohio;
2. Victory Apparel Co., Newark, N. J.;
3. Seymour Wallas & Co., St. Louis, Mo.

The Seymour Wallas firm was low bidder on 82,400 covers for a total of approximately $366,000, and the American Pad & Textile Co. was low bidder on 18,000 covers for a total of approximately $79,000, this combination resulting in the greatest overall saving to the Government.

The Wallas Co., in submitting its bid, took no exceptions to the specifications as written. There was, however, included in the bid proposal a Qualified Products Requirement (par. 103–2.1, p. 4), reading as follows:

QUALIFIED PRODUCTS REQUIREMENT

> The attention of suppliers is called to the provisions of the specifications requiring tests and approval of materials. The right is reserved to reject bids on products that have not been subjected to the required tests and found satisfactory. Manufacturers are urged to communicate with the activity

named in the specification or the Bureau of Supplies and Accounts and arrange to have their product tested for qualification. If the products bid upon have been subjected to the required tests and are included on the Qualified Products List, bidders shall insert in the blank spaces below the brand or trade name, part number, the date submitted for testing, and test or approval number of such products.

It should be pointed out that nothing is contained in this above-cited paragraph which enjoins or precludes a bidder from qualifying subsequent to the submission and opening of bids. Conversely, it is equally clear that, under the conditions specified in the qualification requirement, no award of contract was to be made until the products involved had been subjected to the required tests and found satisfactory. These conclusions are substantiated by the fact that, subsequently, on August 23, 1955, the military deemed it necessary to amend the Armed Services Procurement Regulations in order to provide the following:

2–505: Procurement of Qualified Products.

2–505.2: Solicitation of Bids. In formally advertised procurements involving qualified products, the following provision shall be inserted in invitations for bids:

"With respect to products requiring qualification, awards will be made only for such products as have, *prior to the bid opening date*, been tested and approved for inclusion in the Qualified Products List (insert here the title of the applicable Federal or Military[1] Qualified Products List or Lists), whether or not such products have actually been so listed by that date." [Emphasis supplied.]

It was with regard to this qualification requirement that Mr. Wallas, president of the small firm bearing his name, encountered the first obstacle in his efforts to obtain a contract for the item on which he was the low bidder.

In an effort to have his product qualified as expeditiously as possible, Mr. Wallas, on August 15, the Monday following the bid opening, arrived in Philadelphia to discuss testing procedures with Mr. T. H. Bartman, the civilian negotiator of the contract in question. Mr. Bartman indicated to Mr. Wallas that this was an "urgent" procurement and they would probably make an award approximately 2 weeks from the date of the bid opening. Mr. Bartman also indicated that he believed Mr. Wallas' firm would have to qualify for the complete preserver, despite the fact that Mr. Wallas' company was furnishing only the cloth cover and not the flotation units which were to be inserted to make up the complete unit. Mr. Bartman referred Mr. Wallas to Mr. J. Alpert, of the Industrial Testing Laboratory at the Philadelphia Naval Shipyard, who advised Mr. Wallas that the qualification tests would take at least 2 to 3 weeks, since 1 of the tests required an underground burial of the webbing for a period of 14 days. Mr. Alpert added that Mr. Wallas would have to make arrangements with Mr. R. W. Webster, of the Bureau of Ships in Washington, D. C., for authority to have the tests run and for a decision on whether the cover alone or the entire preserver was to be tested.

[1] The Armed Services Procurement Act was additionally revised on September 30, 1955, to clarify the point that ASPR 2-505.2 applies to both Military and Federal Qualified Products Lists.

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Mr. Wallas, upon leaving Mr. Alpert's office, called Washington by long distance and spoke with Mr. William Marcellino, Mr. Webster's assistant in the Bureau of Ships, and arranged for an appointment the following day. Mr. Wallas then traveled to Washington and met with Mr. Marcellino, of the Materials Branch, Research, and Development Division of the Bureau of Ships (that section charged with authorizing qualification tests on the item in question), at 8:30 a. m. Tuesday, August 16.

According to Mr. Wallas, Mr. Marcellino, upon being asked if the entire preserver was to be tested or merely the cover, talked with another Navy official over the phone and then stated that the entire vest or cover would have to be submitted for qualification testing. Mr. Wallas pointed out to Mr. Marcellino the inequity of such a decision, that conceivably the cover could pass the tests and the flotation units fail, thereby causing his company to be disqualified, even though low bidder, for failing to pass tests on components they were not contracting to furnish. Mr. Marcellino agreed with his thinking but said that, unfortunately, that was the way it was.

Mr. Wallas also advised the committee that at this time Mr. Marcellino asked him for a written request for the testing. Mr. Wallas told Mr. Marcellino that he did not have any letterhead stationery with him but that, in the interest of time, he would submit a request in longhand and would submit a typewritten copy later. Mr. Marcellino, Mr. Wallas stated agreed to these arrangements, although it subsequently developed that, despite the Navy's supposed urgency, he did not act on this request until some 3 days later. (Mr. Marcellino later informed a member of the committee staff that such a handwritten request was "not acceptable to the Navy.")

Mr. Wallas returned to Philadelphia with his "sample" preservers and called on Mr. Alpert, advising him that he had received assurances from Mr. Marcellino that action was being taken to have the tests initiated as a result of his handwritten request. On Mr. Alpert's suggestion, Mr. Wallas arranged, by long distance, for his office in St. Louis to have a certified check in the amount of $200 issued to Treasurer of the United States to defray the testing costs.

The following day Mr. Wallas, quite understandably alarmed over the untenable position his firm was being placed in because of the conflicting time factors, determined he had best submit a formal request to delay any award of the contract until after his qualification tests could be completed. Toward this end he prepared a letter and called Mr. Bartman for an appointment the following morning. During this appointment, Mr. Wallas asked that some decision be reached on whether the award would or would not be held up until the tests were completed. Mr. Wallas states that Mr. Bartman replied he would give him an answer in a few days. Mr. Wallas told the committee he pointed out to Mr. Bartman that there were then only a few days remaining from the original bid opening date of August 10 which would just about exhaust the original period of 2 weeks within which Mr. Bartman had stated an award was to be made, owing to the degree of "urgency" involved.

Mr. Wallas, at great personal expense of time and money, having done everything he conceivably could to protect his position as low bidder, thereupon sought the assistance of your committee in delaying the award at least until the qualification tests were completed.

Your committee conferred by phone on the matter with representatives of the Department of the Navy in Washington and, by telegram on August 19, requested the Aviation Supply Office in Philadelphia to delay the award until the qualification tests were finalized. Lieutenant Commander Lohse, of the Aviation Supply Office, telephoned the committee on August 22, that the award would be delayed until the tests were completed and that the Navy also was reviewing the entire procurement.

On August 23, Mr. Wallas, at an appointment with Capt. D. C. MacKenzie, Assistant Chief, Bureau of Supplies and Accounts, Department of the Navy, on other matters, was informed by Captain MacKenzie that the Navy was then of the opinion that the bids on the covers should never have included a qualified-products requirement at the outset and that the specific problem of qualification was under study at that time.

On September 1, Captain MacKenzie advised Mr. Wallas the Navy had decided to cancel the entire procurement and readvertise.

On September 13, new invitations for bids were sent out without the qualified-products requirement, and Mr. Wallas' firm, its competitive position having been exposed as a result of the publication of its price on the first bid, was underbid by other suppliers.

Because of the conflicting and contradictory information furnished this small-business man by various Navy officials on such questions as urgency, testing, and qualification, it was concluded that an objective and comprehensive appraisal of the numerous obstacles which had apparently been placed in the path of this low bidder could best be obtained during the course of a public hearing. Accordingly, Mr. Wallas was requested to appear before the Subcommittee on Government Procurement in order that the difficulties experienced by his firm might be brought to the attention of the personnel in the Department of the Navy charged with establishing policy on procurement procedures.

B. PUBLIC HEARINGS

On January 9, 1956, Mr. Wallas appeared before the Subcommittee on Government Procurement and outlined the excessive amounts of time and money he had expended in his efforts to protect his position as low bidder. Mr. Wallas also commented on the considerable expense involved in merely preparing a bid on a half-million-dollar requirement, such as the voluminous correspondence, long-distance calls, and, on many occasions, necessary trips to the raw-material sites in order to validate one's market position on the components needed to fulfill the contract specification.

Representatives of the Department of the Navy also appeared in behalf of the Navy's position. Testimony adduced from these representatives revealed that the qualification requirement had originally been established for the entire jacket (including the fiberglass inserts for buoyancy), since a usual procurement of this nature would have been for the entire jacket, not the cover alone. In this connection, your committee noted with interest the statement of Capt. L. L. Schock, assistant to the Director of the Ship Technical Division, Bureau of Ships, who testified as follows:

> A new requirement came in merely to change the cover for greater serviceability in the water, which forced us into

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a procurement for covers alone. At the time the procurement arose, the question was raised: Do we still need the qualification? The answer at the branch level of the Bureau of Ships at that time was, "Yes; we still need to stay with the people on the qualification-products list." * * * I think we had strong reasons for being conservative in our approach as to whether or not we require the qualification. Up until this time, I had not entered the picture, but the ruling had been made at the branch level in the Bureau of Ships, the branch that has responsibility for the technical specifications of this jacket.

Subsequently, when Captain MacKenzie called from the Office of Naval Material, he simply asked would we review critically the necessity of invoking the qualified-products list for the jacket alone. I discussed this with the project engineer, Mr. Amey. I am in the position of authority over Mr. Amey. He is at branch level. I am at division level within the Bureau of Ships. And he expressed these same things I have been telling you. The buoyancy must be correct, the ties must have the necessary strength.

On critical analysis it did not appear that qualified-products list was mandatory, that is the invoking of it in the specification list was mandatory; and I waived that requirement.

Since Captain Schock's decision to waive the requirement subsequently resulted in the entire requirement being rebid, with the resultant extension of delivery dates, etc., the chairman requested that the individual who issued the bids testify concerning the urgency which was supposed to have necessitated an award within 2 weeks. The civilian buyer who had issued the bids testified as follows:

Senator SMATHERS. All right. At the time that you issued this invitation to bid, was it your understanding that there was an emergency feature connected with it?

Mr. BARTMAN. No; there was not an emergency.

Senator SMATHERS. Did you ever tell Mr. Wallas or anybody else there was an emergency feature connected with it?

Mr. BARTMAN. I think my exact words were that there was a certain degree of urgency in connection with the procurement, no emergency involved * * *

Senator SMATHERS. After that, after the opening of the bids, did you then tell Mr. Wallas there was a matter of time involved in this whole contract?

Mr. BARTMAN. Yes, sir; that is when I made the statement to him that there was a certain degree of urgency connected with the procurement.

Senator SMATHERS. Is that all you said to him, there is a certain degree of emergency, or did you say this has to be done within 2 or 3 weeks?

Mr. BARTMAN. There was a certain degree of urgency I said to him, Senator; and I indicated to him that the procurement was under evaluation at that time and that we would probably handle it in the normal routine of business, which would mean an award in about 2 weeks from the time he first saw me.

It should be stated here that Mr. Bartman also testified he had indicated to Mr. Wallas that the entire preserver was to be tested but that he had referred Mr. Wallas to the Industrial Testing Laboratory in the Bureau of Ships in Washington for an exact answer to that question. This organization, in turn, referred Mr. Wallas to the technical division in the Bureau of Ships in Washington, stating that any initiation of tests should originate from that office.

As previously brought out, Mr. Wallas did go to Washington to see the Bureau about getting the test approved. Mr. Marcellino's account of what transpired is as follows:

> Mr. ODOM (committee counsel). Was just the cover tested, or was the whole jacket?
>
> Mr. MARCELLINO. Mr. Wallas, when I spoke to him in the office, told me that he would submit the entire unit, that he would have the pads, et cetera.
>
> Mr. ODOM. Now, when you spoke to him at the office, did you tell him that it would only be necessary for him to submit the entire life preserver?
>
> Mr. MARCELLINO. I told him he could submit the cover. If he wanted to get on the QPL list for life preservers, he would have to have the whole unit tested.
>
> Mr. ODOM. In other words, when Mr. Wallas came to your office and discussed this matter with you, you told him that it would only be necessary for him to submit to you this life-preserver cover and not the entire unit for testing; is that your statement?
>
> Mr. MARCELLINO. Yes, sir.

This testimony was in direct contradiction to Mr. Wallas' statement that Mr. Marcellino had placed a telephone call in his presence and, upon completion thereof, told Mr. Wallas he was sorry but "that's the way it is."

Of additional concern to your committee in determining whether normal and usual cooperation was extended to Mr. Wallas, was the question of how expeditiously the authority to begin the tests was handled. In this connection the chief counsel questioned Mr. Marcellino as follows:

> Mr. WALLAS. I would also like to ask Mr. Marcellino—I gave him a written authorization on Tuesday, and official word did not go down to Philadelphia until the following Friday, according to his statement.
>
> Mr. ODOM. Mr. Marcellino, what caused that delay?
>
> Mr. MARCELLINO. Let me state it in my terms. Mr. Wallas came in to see me, and I asked him to write a letter to us. He said, "Well, I will give you a penciled copy right now."
>
> I said, "That will be perfectly satisfactory, and start the ball rolling. As soon as I get your official letter, I will attach it to the original office letters we send up forward to the line, where they are signed out."
>
> He said he would airmail special delivery a letter to me that night from New York, and I would have it in my hands the following morning. I don't recall what day of the week it was. I remember it was August 16 that he was at my office.

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Two days later, on the 18th, I still had not received this official letter. Mr. Wallas called me from New York, if I remember correctly, and he said he had talked to the personnel at Industrial Test Laboratories, and they hadn't received an authorization from the Bureau.

He told me the urgency of the matter. I agreed with him. I told him, "I am going to get permission from up forward to make a telephone call to authorize the test," which I did that morning of the 18th.

Mr. ODOM. In other words, as soon as he gave you this penciled copy, you went ahead and authorized the test?

Mr. MARCELLINO. I had the letter all written up. I was just waiting for his letter.

Mr. ODOM. But didn't you also authorize the test by telephone on that occasion?

Mr. MARCELLINO. On the 18th I authorized the test by telephone.

Mr. ODOM. Is that when he gave you this penciled copy?

Mr. MARCELLINO. No; he gave me the penciled copy on the 16th.

Mr. ODOM. And you waited then until you received his letter on the letterhead to go ahead and make the authorization?

Mr. MARCELLINO. Through normal channels.

Mr. ODOM. I see. In other words, you did not look upon this penciled copy as an official authorization to you to proceed with the test?

Mr. MARCELLINO. That was the normal procedure.

Mr. ODOM. No. I just asked, you did not look upon this penciled copy—it was signed by him, and you knew he was president of the company, did you not, Mr. Marcellino?

Mr. MARCELLINO. He told me he was president of the company, but I had no knowledge——

Mr. ODOM. Did he sign the letter as president of the company; or do you recall?

Mr. MARCELLINO. I threw that penciled copy away. I don't know. I can't recall.

This 3-day delay, while not of any great moment in the ordinary sense, understandably assumed very large proportions in the eyes of a bidder who, only 3 days previously, had been informed that an award was to be made within 2 weeks.

Further in connection with the testing question, Mr. Webster, Mr. Marcellino's supervisor in the Bureau of Ships, stated unequivocally that Mr. Wallas' preservers "failed the test." Captain Blick, Director of the Procurement Division, Office of Naval Material, stated the test report "goes into the details of why it failed to pass the test." Captain Schock additionally remarked "the sample was deficient, and we felt quite deficient."

Your committee feels the senior Navy officials quoted above showed more zeal in justifying the Navy's position than in presenting the facts in an impartial manner. It comes to this conclusion after reading the results of studies by the Navy's own testing laboratories.

The Industrial Testing Laboratory, Philadelphia Naval Shipyard, in its report on the fiberglass life-preserver covers submitted by Seymour Wallas & Co., states at the conclusion of its report:

DISCUSSION

> The points of noncompliance found in certain of the component materials in the sample preserver are relatively minor and are capable of easy correction. In general, the preservers were well cut and adhered closely to the drawings for each part. The authorizing letter specified qualification tests on the preserver cover, but, as the exhibitor had already submitted complete samples, qualification tests were conducted on the entire preserver.

CONCLUSIONS

> It is concluded that the Seymour Wallas Co.'s sample preservers are in essential conformity with the requirements of the specification.

Finally, it is obvious that the "certain degree of urgency" position was exploded with the Navy's decision to cancel the entire procurement and readvertise. A review of the testimony offered during the hearing reveals that the sole basis for this "urgency" was the fact that the second lowest bidder included a 20-day acceptance clause in its bid, which, initially, the company refused to extend. Since it was also brought out at the hearing that prospective awardees "generally" grant extensions of the time listed in their acceptance clauses, your committee cannot understand why this matter was given any more than the mere administrative cognizance of sending the bidder a letter asking for such an extension, if deemed necessary. Just why this factor should have caused the Navy to place a qualified low bidder in a time vise is beyond the comprehension of your committee.

CONCLUSIONS

Your committee finds that—

1. Invitation to Bid No. 383–1088–56 was poorly planned, badly administered, and canceled with damaging results to a qualified low bidder.
2. The civilian buyer was unable to justify his "certain degree of urgency" argument which presented the low bidder with impossible time requirements.
3. Since the Navy later concluded, once the qualified products list requirement had been waived, that it was in the best interests of the service to readvertise, thereby encouraging competition, those at the branch level who drafted the initial specifications erred in not conducting a complete study on the qualified products list requirement prior to the issuance of the initial bid.
4. The cooperation and assistance accorded Mr. Wallas as low bidder was far less than the committee believes should be normal for the civilian and uniformed officials of the Navy.
5. Procurement actions of this nature, wherein "the rules are changed after the game has started," can only serve to discourage

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suppliers from participating in Government bids, thereby lessening competition, with resultant increased costs to the Government.

6. No consideration whatsoever was given by the particular Navy officials concerned regarding the unreasonable and undue expense in time and money that Mr. Wallas was called upon to expend in endeavoring to protect his position as low bidder.

RECOMMENDATIONS

Your committee recommends that—

1. When specifications are being written for an item of procurement which appears on a qualified-products list, a more than cursory review be made to determine the practicability of continuing the item on the list prior to the issuance of any bids or requests for proposals.

2. Cancellation and readvertisement of bids be avoided whenever possible in order to preclude the exposure of the competitive position of bidders who had submitted responsive quotations.

3. More cognizance should be taken by procurement officials of the economic position of most small-business men so that they may be spared unwarranted expenses in time and money owing to inconsistent decisions by those administering the contracts.

4. As the committee has recommended before, the services should take all possible steps to insure that policy decisions are made prior to the issuance of invitations to bid.

CHAPTER II. PROCUREMENT OF ANAMORPHIC LENSES FOR CINEMASCOPE-TYPE FILM BY DEPARTMENT OF THE NAVY

A. BACKGROUND DATA

On August 29, 1955, the Department of the Navy issued Request for Proposal No. 565–2237, covering 2,300 2-inch focal-length anamorphic lenses to be used in projecting 16-millimeter Cinemascope-type film. This requirement was negotiated between two of the largest domestic firms in the optical industry, i. e., Bausch & Lomb and Bell & Howell.

On October 10, 1955, award No. NOBS 67670, in the amount of $214,498, was made to the Bell & Howell Co. of Chicago, Ill.

On November 6, 1955, Mr. Fred E. Aufhauser, president of Projection Optics Co., Inc., of Rochester, N. Y., upon learning of this award for the first time at a convention of theater supply manufacturers in Chicago, immediately sent a telegram to the Chief of Naval Material, Washington, D. C., protesting the award. The following objections were raised in the telegram:

1. No emergency or urgency is involved.
2. Bell & Howell is neither sole source of supply nor has 2-inch anamorphic lenses commercially available.
3. Improper and highly irregular removal of Projection Optics Co. from bidder's list.
4. Procurement should be formally advertised rather than negotiated in secret.
5. By joint determination of the Small Business Administration, partial requirements should be set aside for small business.

6. Resultant considerable savings to the Navy.
7. Proposed expenditure of approximately $214,000 was "not in the best interest of the Government."

Duplicate copies of this telegram were sent to the Comptroller General of the United States and to Senator Herbert H. Lehman. It was upon the request of the latter that your committee interceded in this case.

An informal inquiry of the Navy made by your committee on November 8, regarding Mr. Aufhauser's allegations, resulted in the following answers by the Navy to the specific questions raised in the aforementioned telegram:

1. The procurement was of an emergency nature requiring extremely early deliveries owing to the fact that 80 percent of all film which would be received by the Navy after October of 1955 would be of the Cinemascope variety, requiring the type of lens which was the subject of the procurement.

2. The only two companies in the United States which could start production immediately, thereby beginning deliveries as desired in December, were Bell & Howell and Bausch & Lomb. Because of the highly specialized nature of the item and the intricate testing procedures involved, no other optics company would be able to start production before September of 1956. No optics company had these items "on the shelf."

3. The Navy had not improperly or irregularly removed any firm from the list of qualified bidders; they had merely restricted the negotiations to the only two firms they believed were qualified to meet the delivery schedule.

4. The procurement was not advertised, owing to the emergency nature thereof and the extended time involved had it been advertised.

5. The Small Business Administration representative in the Bureau of Ships had reviewed the procurement; however, no joint determination was initiated since it had been established that no small business could have met the delivery date.

6 and 7. The Navy programed some $230,000 for this procurement, based on information obtained concerning the commercial price of the item. The cost of the lenses, finally negotiated in the amount of $214,492, was considered fair and satisfactory by the Navy.

This, then, was the position of the Department of the Navy on November 8, 1955, 2 days after the initial protest was lodged.

Additional discussions were immediately arranged by your committee with officials of the protesting company in the light of the answers received from the Navy and, on the basis of additional information received from the complainants, it was determined that the Navy should be requested to review the procurement from its inception. Accordingly, on November 9, 1955, your committee requested that the Assistant Secretary of the Navy (Material) direct his office to make an immediate review of the procurement, adding that the committee was principally concerned about the emergency nature of the procurement and the few number of suppliers contacted for purposes of negotiating the contract.

It was learned that inquiries were concurrently being made of the Navy with regard to this procurement by the Comptroller General's Office, the Small Business Administration, and by several Members of Congress.

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Projection Optics Co., having received for the first time a copy of the basic request for proposal on November 7, submitted on November 10 a quotation concerning the items being purchased, which reflected a savings to the Government of either $36,900 or $30,000, depending on certain exceptions to the specifications being permitted. This offer the company supplemented with a 7-page memorandum to the Chief of Naval Material on November 13, elaborating in detail on the objections contained in their protest telegram of November 6.

On November 22, the committee received from the Acting Chief of Naval Material an answer to its request of November 9, for review, which stated in part, as follows:

> * * * It appears that the Navy's action throughout was well founded and merits no criticism. A quantity of 2,300 anamorphic lenses was procured by the Bureau of Ships to fill an urgent fleet requirement for a noncommercial lens of a technical and specialized nature. Information available at the time indicated that only Bell & Howell Co. and one other firm had developed a similar lens and therefore were in a position to produce and deliver ahead of their competition. Accordingly, quotations were solicited only from these two firms. There is still no evidence that others had developed or could have produced in time a lens suitable to our needs. * * *

Enclosed with this letter to the committee was a copy of a letter to Projection Optics Co. from the Chief of Naval Material of the same date. Of particular interest to the committee were the parts of this letter to the supplier which appear below:

* * * * *

> *a.* In anticipation of conversion to the use of wide-screen film in the fleet at some time in the future, the Bureau of Ships had, on July 25, 1955, directed letters to the Projection Optics Co. and a number of other potential suppliers, inquiring as to any development they had undertaken in the field of 16-millimeter anamorphic projection lenses suitable for use with Cinemascope film and as to their ability to produce such lenses.
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> *b.* Shortly thereafter, greater urgency was indicated in the trade press which stated that Twentieth Century Fox would supply only 16-millimeter Cinemascope prints of new movies, which prints could not be shown without anamorphic lenses, commencing August 1955. Announcements of Metro-Goldwyn-Mayer and Warner Bros. followed. This meant, as a result of fleet circulation of film, that after October 1955 a majority of films available for showing in vessels of the fleet would require projectors equipped with anamorphic lenses. * * *
>
> * * * * *
>
> *e.* As a result of its July letter the Bureau of Ships discovered that Bell & Howell and one other firm had previously manufactured lenses quite similar to the required type. These firms furnished samples of such lenses. Consequently they were considered capable of producing and delivering the

quantity needed in this instance considerably in advance of other competent suppliers since none of the others indicated that they had done any extensive preparatory work and since extensive preparation for manufacture would be required of any supplier. * * *

Projection Optics' reply of November 25 to the Chief of Naval Material pointed out that their company had initiated correspondence with the Navy concerning 2-inch anamorphic lenses as early as June 2, 1955, and that in the Navy reply of July 25 no reference was made to any requirements for 2-inch lenses but, rather, indications were that the Navy was interested in longer focal-length lenses, of sizes even up to 7.5 inches. The reply of the firm added that no specific request had ever been made by the Navy concerning any data, specifications, or samples pertaining to a 2-inch anamorphic projection lens.

Several exchanges of correspondence between the Navy and Projection Optics ensued, dwelling principally on the technical aspects of the item under procurement, plus the Navy's contention that Projection Optics was incapable of developing and manufacturing the lenses within the specified delivery schedule. This correspondence culminated with the delegation, in early December, of Capt. Joseph B. Duval, assistant to the Assistant Chief of the Bureau for Shipbuilding and Fleet Maintenance, to review the action of the Ship Technical Division regarding subject procurement.

During this same period of time, in its efforts to insure that all facets of this matter would be given every consideration, your committee made inquiry of the Department of the Air Force concerning its role in this single-service procurement item, normally a responsibility of the Air Force. The Air Force replied that the Navy had asked for a waiver in this instance as the procurement was for "an urgent, one-time highly specialized, nonstandard item requirement." The Air Force granted the requested waiver on September 2, 1955.

Regarding the element of emergency and urgency which was continually being mentioned in connection with the procurement, your committee made informal inquiry of the Army and Air Force Motion Picture Service (AAFMPS) concerning its policy in converting to 16-millimeter Cinemascope-type film. The committee was advised that the AAFMPS had adopted a policy of watching and waiting, since the film industry itself had not concluded exactly what steps would be taken in this connection. The committee was advised, however, that the agency had purchased 500 2-inch lenses for the Far East Command against a special order from that headquarters.

The spokesman for the agency added that, at this particular time, only 2 of the 11 major motion-picture companies supplying film to the various armed services had issued Cinemascope-type prints in the 16-millimeter size, as opposed to the normal 35-millimeter type. He concluded that until and unless the motion-picture companies reached an agreement among themselves on the production of this type of film, there was no necessity for the agency to try to second-guess the industry.

During this same period a conference was held by Captain Duval to determine if the Projection Optics Co. could possibly have qualified technically to make the lens in question, and within the delivery time specified. At this conference the representatives of Projection Optics

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pointed out that there was no unusual artistry or talent necessary for them to make a 2-inch anamorphic lens since the company's technical staff had had ample and wide experience in the development and manufacture of all types of anamorphic lenses. This, the company's representative felt, was adequately demonstrated when, within 24 hours after having received the Navy specifications in the request for proposal, they completed a work drawing of the lens and within 1 week turned out a preliminary working model. This conference concluded with the agreement that Projection Optics' preliminary working model, constructed in 1 week's time, was to be tested at the Brooklyn Navy Yard the following week. This technical test was supplemented some few days later by a projection comparison test with the Bell & Howell lens at the Naval Photographic Center in Anacostia. It was determined by the Navy that in neither instance did the Projection Optics lens meet the Navy requirements.

At about this same time, your committee received another complaint concerning this procurement from the Vidoscope Corporation of America, of New York City. The company, through its president, Mr. Walter Futter, stated that efforts had been made by their sales representatives since March of 1955 to assist the Navy in developing their specifications for anamorphic lenses, even to the extent of having constructed five mock-up lenses for the Navy's examination and consideration. Mr. Futter stated that his company had expended a large amount of time and money in trips, calls, and correspondence to Washington on this specific requirement and that they had no idea they would be overlooked or excluded at such time as a procurement was to be made. Mr. Futter added that his company would not only guaranty that its quotation on the same requirement would be for less cost per unit, but that faster delivery could be made, all the while adhering to the quality requirements contained in the Navy's specifications.

At this point your committee was compelled to conclude that the decision taken by the Ship Technical Division of the Bureau of Ships, that only two of the largest firms in the optical field were capable of producing the item within the delivery time required, was certainly open to considerable question. Accordingly, it was determined that, in the best interests of all parties concerned, a public hearing was warranted concerning the numerous technical and administrative differences which had developed. The hearing was held on the afternoon of January 9, 1956, before your committee's Subcommittee on Government Procurement.

B. PUBLIC HEARINGS

Mr. Aufhauser, Projection Optics' president, testified that his company had been in existence for some 35 years, engaging in the manufacture of every type of optical assembly and that it had successfully performed a number of Government contracts in the past. He added that his company had made diligent and studious efforts to be included on all appropriate bidders' lists. He outlined the extensive efforts made by his representatives to apprise the Navy of their interest in participating in the Cinemascope conversion program. He further challenged the Navy's position that the procurement was negotiable under section 2 (c) (14) of the Armed Services Procurement

Act, since the military regulation interpreting this act cites as examples of exceptions to advertised bidding under this section "aircraft, tanks, radar, guided missiles, rockets, and similar items of equipment."

Mr. Aufhauser questioned the Navy's claim that only the two large companies could meet their urgent delivery schedule, since the Navy had, subsequent to the issuance of their request for proposal, already found it necessary to extend by 2 months their original delivery schedule.

Mr. Aufhauser finally charged that the Navy's review of the procurement, which was conducted by Captain Duval, could hardly have been completely impartial and unbiased since this same officer had headed up the Contract Division of the Bureau of Ships when the contract on this procurement was being negotiated.

Mr. Futter, of the Vidoscope Corporation of America, testified before your committee that his small firm had also made every conceivable effort to participate in this procurement. Mr. Futter stated that his representatives had constantly called upon the Navy officials developing the requirements for these lenses, and that his company had constructed five mock-up lenses based on what his representative could surmise, from these talks, was what the Navy was seeking in the way of a suitable lens. On August 18 his representative called on the Navy, showed them the most recent mock-up and asked when final specifications would be available. He was informed that these specifications were dependent upon a survey which was then underway, and were not ready for delivery to prospective suppliers. On August 30, the day after the request for proposal (including specifications) had been sent to the two large firms, Vidoscope's representative again called on the Navy and was again told the specifications were neither ready nor available. On October 11, the day after the award for the lenses was made to Bell & Howell, Mr. Futter was again advised by the Navy officials that the specifications were not available to them. Mr. Futter further testified that, had his firm been permitted to deliver lenses under the exceptions to the original specifications which had been granted to Bell & Howell by the Navy, he could have saved the Government "at least 15 percent" on the contract and could have made complete delivery on the contract within 90 days from the issuance of the request for proposal, that is, by the 1st of December 1955.

On behalf of the Department of the Navy, Mr. G. C. Bannerman, Assistant Director of the Procurement Division, Office of Naval Material, testified that the Twentieth Century-Fox Film Studio had not, for a considerable period of time, furnished any of its 35-millimeter Cinemascope films in prints converted so as to be suitable for 16-millimeter conventional projection and this situation, combined with the fact that other major studios were releasing a smaller number of new top-flight films than had previously been normal, caused the Navy to be faced, in the summer of 1955, with a situation where the quantity of good new entertainment film available to the fleet was getting progressively smaller and a progressively higher percentage of old reissues would be required for distribution.

When a decision was made by Twentieth Century-Fox not to issue any more film in the 16-millimeter media except in the true Cinemascope version, the Bureau of Ships was requested to procure for the

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Navy suitable lenses for projecting the 16-millimeter wide-version film.

Mr. Bannerman added that it was determined by Bureau of Ships, for technical reasons, that a 2-inch lens best answered all requirements, and that, because of the need for a specially designed product for shipboard use plus the requirement for early delivery, as a matter of engineering judgment, it was decided the contract should be negotiated with the only companies which had previously produced quality 16-millimeter anamorphic lenses commercially in an integrated projection lens unit. Mr. Bannerman went on to say that the Navy specifications were new, much more demanding than commercial specifications, and that, consequently, it was not possible "to say with assurance that any firm could meet these specifications in their entirety." Mr. Bannerman admitted that deviations had to be granted to Bell & Howell from the initial specifications since it later became clear "the specification requirements were apparently more extreme in these respects than can at present be accomplished."

The Navy spokesmen also advised the committee that the General Accounting Office had ruled "that the contract, as made, was within the authority of the Navy Department." Mr. Bannerman concluded his testimony with the admission that the degree of urgency cited to substantiate the negotiation of this procurement with only two firms had been "very substantially overstated," but that nevertheless, since August of 1955, it was, and had been, "important to the Navy to obtain quality anamorphic lenses quickly."

Mr. L. M. Flaherty, civilian Chief of the Interior Communication, Fire Control and Gyrocompass Branch, Bureau of Ships, the technical division which developed the basic requirements and specifications for this procurement, advised the committee that he had initially suggested that the contract be negotiated among the 10 companies which were shown on their records as being qualified optical suppliers. However, he was informed by the Contract Division that the contract could not be negotiated unless it was urgent, in which case it could be negotiated under the exception to advertised bidding provided for in section 2 (c) (14) of the Armed Services Procurement Act. He added that, based on information received from his subordinates to the effect that two companies had previously made single-unit lenses "which were in effect pretty near to meeting the Navy specifications," he made the "technical and engineering" decision to limit the negotiation to these two firms.

Questioning of Mr. R. T. Van Niman, upon whose opinion Mr. Flaherty had based his decision to negotiate the procurement between only two firms, brought out that the lens project had been started in June of 1955, and that in early July Mr. Van Niman had prepared inquiries to the various optical companies in the country concerning the overall project of obtaining 16-millimeter Cinemascope lenses. The Navy witness added that during the last 2 weeks in July an urgent requirement arose for a stopgap program, utilizing 2-inch lenses, and that special 1-time specifications were written against this requirement. Mr. Van Niman advised your committee that the overall specifications for various focal-length lenses are still incomplete, awaiting the final results of a fleet survey.

A review of Mr. Van Niman's testimony revealed that he had assumed an adamant position in recommending the two companies

he felt could produce the lenses within the time period required, but that, on practically all other matters relating in any way to the procurement, it was not his "province to decide."

Mr. Robert E. Quick, Deputy Chief of the Army and Air Force Motion Picture Service, testified before your committee that their agency had purchased 500 similar anamorphic lenses for the Far East Command from Bausch & Lomb at a price less than that being paid by the Navy to Bell & Howell. Mr. Quick stated that his agency was not treating the problem of conversion as an emergency but that they did expect to convert, both in the United States and in overseas areas, within the next 3 to 6 months. Mr. Quick stated that his agency had been exploring the availability of lenses from various manufacturers for this conversion program for some 6 to 8 months. He acknowledged the fact that both Projection Optics and the Vidoscope Corp. had been contacted by AAFMPS in this connection.

Mr. L. T. Harrison, Assistant Director of the Contracts Division, Bureau of Ships, Navy, was interrogated concerning the review of the file on this procurement by the Small Business Administration representative assigned to the Bureau of Ships under the joint determination program.

Mr. Harrison stated that, when the papers went over the desk of the SBA representative for examination and review, a list of 10 suppliers, both large and small, was attached thereto, creating the impression that small-business suppliers would be contacted with reference to the procurement. Mr. Harrison further admitted that, subsequent to this review by the SBA representative, it was determined that only the 2 of the 10 firms would be contacted and that the SBA representative was not informed of this change in plans.

CONCLUSIONS

Your committee finds that—

1. The arbitrary decision taken by 1 man at the technical-division level that only 2 out of 10 suppliers could furnish the item to be procured was, without sufficient basis in fact, harmful to good procurement practices and completely erroneous.

2. The chief of the technical division concerned was remiss in not developing at greater length the facts behind the decision of his "more or less optical engineers" that 8 out of the 10 companies on the Navy's list of acceptable suppliers were unable to provide the item required within the desired delivery period.

3. The degree of emergency or urgency which was cited by the Navy as being such a compelling factor in this procurement was not only "overstated" but was grossly exaggerated. The committee notes with concern that final delivery will not be made on this contract until July 1, 1956, 10 months after the request for proposal was issued, and some 7 months after a small competitor has guaranteed he would have made final delivery.

4. The technical division was additionally remiss in not obtaining the assistance and/or advice of the Army and Air Force Motion Picture Service regarding the previous procurement experience of that agency on this "highly specialized, nonstandard" new requirement.

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5. The circumvention of review by the Small Business Administration representative within the Bureau of Ships, which occurred in this matter, was in direct violation of congressional intent and of the objectives set forth in Department of Defense Directives 4100.9 and 4100.10 and was accomplished in a manner which leaves much room for questioning the purposes or intentions of the Contract Division of the Bureau of Ships.

6. The arbitrary decision to exclude the Vidoscope company from negotiating on the basis that this company's lens was of foreign origin was in no way substantiated by further development in either the Contract Division or the Legal Division of the Navy and, presumably, gave no consideration to the price percentage differentials provided for in the Buy American Act or in the President's Executive Order No. 10582, dated December 17, 1954.

7. The answers given the representatives of the Vidoscope company that specifications were not available on the very days following (*a*) the issuance of the request for proposal and (*b*) the awarding of the contract, were evasive, misleading, and untruthful. Any reasonable or prudent public official would certainly be aware of the great interest of a supplier in any specifications, temporary or otherwise, accompanying a procurement of a quarter-of-a-million-dollars worth of the very material being produced by that supplier.

8. The comparison tests conducted by the Navy between the Projection Optics' preliminary working-model lens, constructed in 1 week, and the Bell & Howell preproduction model, developed over a 2-month period, were not in keeping with the tenets of fair and equal consideration that should be expected of the Navy.

9. The answer given by the Navy to the Comptroller General that this procurement was negotiated under the authority of section 2 (c) (1) of the Armed Services Procurement Act of 1947, was highly improper in that there can be no conceivable connection between the procurement of lenses for entertainment purposes and an exception to competitive advertising based on a period of national emergency. Additionally, the Navy's attempts to further justify this negotiation under the principles of section 2 (c) (14) of the Armed Services Procurement Act are deemed without merit and an abuse of this provision of the law in view of the facts that the urgency involved was grossly exaggerated, that several other companies could easily have supplied this technical item prior "to September of 1956," and that lenses for entertainment purposes bear no relationship to "aircraft, tanks, radar, guided missiles, etc."

RECOMMENDATIONS

Your committee recommends that—

1. If the Department of the Navy plans to continue to permit one-man decisions on new procurement items, which decisions may in any way restrict competitive bidding on such items, boards of review be established within the technical divisions to screen and pass on all such determinations by individual technicians.

2. The personnel of the Bureau of Ships who were responsible for deciding that this procurement be negotiated between only two companies, be administratively admonished for having arbitrarily, and without sufficient reason, excluded from competition qualified suppliers

who had evidenced marked interest in participating in this particular procurement program.

3. The Department of the Navy initiate a program within the technical divisions of its various bureaus designed to create a continuing awareness on the part of those technicians within such divisions of the great capabilities and potentials of small-business firms in the various technical and scientific fields.

4. The Navy place all of its procurement cards on the table at all times and not place small suppliers in the position of having to guess at certain of the most important factors governing individual procurement actions.

Chapter III. Provisioning for 144 HF Radio Equipment for CRAF Program by Department of the Air Force

A. BACKGROUND DATA

The Aeronautical Communications Equipment Corp.(AEROCOM) of Miami, Fla., appealed to your committee after extensive correspondence between the company and the Department of the Air Force had failed to bring about a change in the Air Force's policy on the Civil Reserve Air Fleet (CRAF) program, which policy this company felt was resulting in discrimination against its product.

The Civil Reserve Air Fleet program, particularly as it relates to the equipment difficulties which are being encountered by AEROCOM, has been described by Dudley Sharp, Assistant Secretary of the Air Force, as follows:

> The Civil Reserve Air Fleet, commonly known as CRAF, consists of a civil fleet of four-engine aircraft earmarked to augment existing military transport aircraft of the Military Air Transport Service in the event of mobilization. The civil air carriers together with the military departments and the Department of Commerce have been working out the details of this program for several years. An important part of the program has consisted of providing for the modification of inservice and inproduction civil aircraft earmarked for CRAF so that participating carriers will be able to install within a very short time certain equipment essential to effective wartime overseas operation. Arrangements have also been made to purchase and store the necessary equipment to be installed on these aircraft.
>
> Of particular importance in this program is the communications equipment which is required to insure adequate operational capability of these aircraft when utilized in conjunction with aircraft of the Military Air Transport Service. It has been determined that in order to fulfill anticipated operational requirements, aircraft earmarked for CRAF must be prepared, on short notice, to be equipped with a 144 channel high-frequency radio set together with another suitable high-frequency radio as backup equipment.

It is with regard to this preparation or "provisioning" that the AEROCOM company was being discriminated against by the Air Force, according to Mr. F. W. Sullinger, the firm's president.

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Mr. Sullinger told your committee that his small firm had been selling its 144 channel HF equipment to various large and small scheduled airlines for more than 3 years when suddenly it began to run into situations where it could not make any more sales. In talking to the various personnel of the airlines, company officials were informed that their equipment was highly satisfactory, as were their service and their prices. Further inquiries into this puzzling problem by AEROCOM's field representatives disclosed that the airlines were desirous of having certain numbers of their aircraft certified under the CRAF program, and that if the airline already had AEROCOM's 144 channel HF equipment installed, their planes would be accepted by the Air Force for the program. However, if the airline did not already have this equipment on their planes, the Air Force would pay for the costs of "provisioning," i. e., installing shock mounts, wiring, control panels, etc., only for equipment which was made by the Collins Radio Co. of Cedar Rapids, Iowa, a competitor of the AEROCOM company.

Mr. Sullinger also pointed out that for those civilian aircraft which the Air Force was provisioning for Collins' equipment, it would be necessary, in the event of mobilization, for the Air Force to buy and provide for these planes the Collins' equipment rather than some other make.

In Mr. Sullinger's opinion, the sole argument for the Air Force's position of provisioning only for the Collins' equipment was that it was using this type in the MATS planes and perhaps was interested in standardizing on one set, AEROCOM and Collins' equipment not being physically interchangeable.

Mr. Sullinger's opinion had as part of its basis the statement contained in a letter that AEROCOM received on October 6, 1955, from the Chief of the Airlines Branch, Airlines, Maintenance, and Service Contracts Division, Air Materiel Command, which stated, in part, as follows:

> * * * In those aircraft currently using 144-channel equipment in their commercial operations, the Air Force has, in the interest of economy and readiness, accepted that equipment as satisfactory. In those aircraft requiring provisioning for the later installation of a 144-channel high-frequency set, this headquarters is providing the equipment currently used by the Air Force for similar operations in order to allow maintenance interchange in emergencies. * * *

Mr. Sullinger stated he assumed from this letter that the Air Force was taking the position that it did not believe it was discriminating against the AEROCOM equipment by agreeing to pay for the installation of only the Collins equipment. He then took the matter up with the National Federation of Independent Business, which organization referred him to your committee.

The chairman of the committee directed correspondence on the matter to the Assistant Secretary of the Air Force, and received, on December 29, 1955, information to the effect that the Air Force had found, when the cost of installation of provisions and equipment in CRAF aircraft in operation or in production is to be borne by the Air Force, the Air Force was requiring installation of provisions for the Collins set. The Secretary's office wrote that apparently such action stemmed from a desire to utilize the same HF equipment in the CRAF

program as was being utilized in the regular MATS fleet. The letter added that, while this policy had merit from a logistic standpoint, it did result in discrimination against the AEROCOM set.

The letter from the Assistant Secretary's office concluded that the Air Materiel Command had been directed that, whenever the Air Force had agreed to pay for the installation of provisions for HF equipment under the CRAF program, the choice of equipment would be up to the airline operator involved. It was felt by the Secretary's office that this action should permit AEROCOM to compete freely with the other manufacturer involved.

While your committee was gratified at this immediate repudiation of a discriminatory practice by the Air Force and its apparent willingness to take prompt corrective action, past experience with well-meaning directives issued at the Secretary's level has revealed that a certain variety of creeping paralysis often infects these policy papers en route to the implementing and operational levels. In order to review the effectiveness of this change in policy, your committee determined this case should be taken up at the public hearings scheduled for January 9, and 10, 1956.

B. PUBLIC HEARINGS

Mr. Sullinger testified regarding the difficulties AEROCOM had encountered. Maj. Gen. David H. Baker, Director of Procurement and Production, Air Materiel Command, Wright-Patterson Air Force Base, submitted for the record a statement from the Assistant Secretary of the Air Force concerning the complaint of Mr. Sullinger's company.

The Assistant Secretary defined the problem area and stated that that Air Force had concluded from its review of the matter that—

> The difficult situation is when modification of aircraft is required in situations where the aircraft concerned does not or will not require as much communications equipment as is specified or for the CRAF program. In these situations, it had been Air Force policy to require that modification be made to permit installation of only the Collins 618 S–1 high-frequency transceiver, a piece of equipment which has been tested by the Air Force with good results. It was contemplated that this radio equipment itself would be supplied from Air Force stocks. Similarly, where the aircraft assigned to CRAF were inproduction aircraft, it had been Air Force policy to agree to finance the modifications and provisioning necessary to permit installation of the requisite communications equipment in those cases where the aircraft would not have been so equipped for the normal commercial work contemplated, provided that the equipment provisioned for under those circumstances was the Collins 618 S–1 set.
>
> Our review of this portion of our policy following your committee's initial inquiry has lead us to conclude that, when modification of CRAF aircraft is required and financed by the Air Force, there exists a definite possibility of discrimination against the AEROCOM set if the carriers are permitted to provision only for the Collins' equipment. We have, therefore, determined that the complaint of

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AEROCOM is justified and that the Air Force should not prescribe the equipment to be provisioned for under these circumstances, provided that it meets CRAF standards. We have reached this conclusion in spite of certain logistical advantages to the use of one type of radio equipment, because it is basic to our procurement policy to avoid such discrimination.

The Assistant Secretary also explained that the newly revised procurement policy concerning the communications requirements of the CRAF program now provides as follows:

To summarize the procurement policy now in effect covering the communications requirements of the Civil Reserve Air Fleet program, each of the commercial airlines participating in the program may select the exact type of high-frequency equipment it desires installed in its aircraft. This option may be exercised on both inservice and inproduction aircraft, with the Government paying for both the original provisioning and the necessary end-item components unless the carrier requires such equipment for its own operations. The airlines may select any high-frequency equipment which is CAA certified and will meet the communications requirements established for CRAF. The commercial airlines participating in the CRAF program have recently been notified by letter of the new policy.

I would like to thank this committee, Mr. Chairman, for bringing this matter to our attention so that we have been able to take corrective action.

General Baker testified that letters had been sent out to all airlines, as of January 3, 1956, implementing the new policy which now permitted the airlines to select any type of 144 high-frequency radio they desired, providing it had been certified by CAA and satisfied CRAF operating requirements. He further stated that the Air Force would support the provisioning for whatever set was selected and, in the event of mobilization, would provide that radio for which the plane was provisioned. General Baker added that, in effect, this meant AEROCOM or any other competitor could go to the airlines, sell them their equipment, and the Air Force would treat their equipment exactly as the Collins' set had been treated before.

The letter which was sent to all airlines, implementing this newly adopted Air Force policy, states:

HEADQUARTERS,
AIR MATERIEL COMMAND,
WRIGHT-PATTERSON AIR FORCE BASE,
Ohio, January 3, 1956.

Subject: CRAF HF Requirement.

GENTLEMEN: The purpose of this letter is to amplify the procedures for satisfying the Air Force requirement for high-frequency equipment in coneection with the CRAF program. Each airline participating in the Civil Reserve Air Fleet program shall have the right to exercise an option permitting it to specify the exact type of airborne high-frequency equipment it desires to have installed in its aircraft. This option may be exercised for both inservice and inproduction aircraft.

For group A modification contracts the airline shall have the responsibility of indicating to the Air Force the type of HF equipment

for which it desires group A provisioning. The Air Force shall reimburse the airline for such required group A provisioning.

For group B modification contracts the Air Force shall reimburse the carrier for the purchase of end-item group B components necessary for the HF provisioning in the contractor's aircraft. These components for the high-frequency equipment selected by the airline shall be Government owned and for the purposes of the group B contract shall be considered as contractor furnished group B equipment (CFE). In the event that the carrier selects the Collins 618 S–1 HF transceiver, the necessary group B components will be furnished from Air Force stocks and shall be considered as Government-furnished property (GFP).

It should be noted that in each instance the Air Force will accept only HF equipment which is CAA certified and will also satisfy CRAF operating requirements.

As in the past, the Air Force will continue to provide HF provisioning and components only for those aircraft which do not already have installed HF equipment of a type which will satisfy the CRAF requirement. If aircraft require 144-channel HF equipment in their normal commercial operations, the cost of such equipment will be borne by the carrier.

Sincerely,

OLIVER C. BROWN

(For Arthur G. Frankel, Jr., Lieutenant Colonel, USAF, Chief, Airlines Branch, Airlines, Maintenance and Service Contracts Division).

Mr. Sullinger was asked by the committee chairman if he felt this letter to all airlines would satisfy the particular problem with which AEROCOM had been confronted. Mr. Sullinger replied that he believed it would, but only if the spirit of the directive was carried out at the lowest levels, that is, by those Air Force representatives who actually come in daily contact with the airlines personnel.

Mr. Sullinger added that a further obstacle his company had encountered was the argument that had recently been presented to some of the airlines to convince them to provision for the Collins' set, namely, if a commercial airlines plane was flying overseas and experienced difficulty with their 144 HF set, the plane could put into an Air Force base stocking the Collins' equipment, and have their defective set exchanged for a good set at no cost. The Air Force representatives present at the hearing stated they had never heard of any such arrangement and that, if specific cases could be cited, the top officials in the operational and maintenance groups would be contacted and proper corrective action would definitely be taken.

General Baker concluded his testimony by assuring the committee that, without question, the directive which had gone out to the airlines would be implemented insofar as the authority and influence of the procurement elements of the Department could insure it.

Mr. Sullinger voiced his appreciation of the expeditious action taken by the Air Force representatives and advised the committee the situation had already improved on the west coast as a result of the Air Force letter.

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CONCLUSIONS

Your committee finds that—

1. It is regrettable that congressional intercession was necessary before the patent discrimination existing in this matter was eliminated; however, the committee was pleased to note that, once the chairman brought the matter to the attention of the Department of the Air Force, corrective action was promptly taken.

2. The Air Force was remiss at the time the initial requirement for 144 channel HF radios was developed for MATS in 1953 in not determining that there was more than one supplier who could bid on this equipment, thereby increasing competitive opportunity and possibly permitting greater economies to the Government.

3. In this instance no cognizance or consideration whatsoever was given at the operational procurement levels to the intent of Congress that small business is to be provided an equal opportunity to compete for defense contracts.

RECOMMENDATIONS

Your committee recommends that—

1. The Air Force officers at the operational levels make every effort to solve this type of procurement problem internally by referral to policymaking officials rather than permitting such controversies between buyer and supplier to depend for solution on congressional intervention.

2. Each military service make every possible effort to develop multiple sources of supply for all items of procurement for both reasons of competitive advantages to the Government and defense security.

3. Maj. Gen. David H. Baker be commended for his position favoring competitive advertised bids and for his expressed intent to follow up on the implementation of the amended Air Force policy in this matter.

SUMMARY

As stated in the introduction, the foregoing cases are indicative of the hundreds of procurement problems that are being encountered by small-business men each year and which have been brought to your committee's attention. The committee is well aware that the Department of Defense is an overwhelming organization, both from the standpoint of sheer numbers of personnel and, also, with regard to the billions upon billions of dollars that Congress appropriates each year for its procurement purposes. The committee is also cognizant of the many and complex problems confronting the various Secretaries in the direction of their individual services which, grouped together, make up the Defense Establishment so vital to the security of our country.

Nevertheless, the expressed desires of the Congress with regard to military-procurement practices, which have been incorporated in various well-meaning directives at the Secretary's level, continue woefully short of proper implementation at the operational level. The small-business man with his 10 employees, turning out various machined or fabricated components, stops far short of the generals, the admirals, and the Assistant Secretaries in his quest for defense

contracts. It is the contracting and purchasing people and the technicians developing the requirements, with whom he comes in contact, and these are the people who must be made aware of the incalculable contribution which can be made to our defense program by the small, independent firms throughout the Nation.

It is the hope of your committee that as a direct result of public hearings of this nature, and the resulting reports thereon, additional ways and means will be found by the military policymakers to convince those at the operational level of the compelling importance and necessity of the small-business program, thereby precluding similar difficulties and obstacles to small firms from arising in the future.

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